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C O N F I D E N T I A L SECTION 01 OF 04 TASHKENT 001245

SIPDIS
DEPT FOR SCA/CEN
AMEMBASSY ASTANA PASS TO USOFFICE ALMATY
AMEMBASSY HELSINKI PASS TO AMCONSUL ST PETERSBURG
AMEMBASSY MOSCOW PASS TO AMCONSUL VLADIVOSTOK
AMEMBASSY MOSCOW PASS TO AMCONSUL YEKATERINBURG

E.O. 12958: DECL: 2019/05/01
TAGS: [ETRD](#) [ECON](#) [PREL](#) [EIND](#) [MARR](#) [AF](#) [UZ](#)
SUBJECT: UZBEKISTAN: USCENTCOM ON THE EVE OF CONSTRUCTION

CLASSIFIED BY: Robert McCutcheon, Econ Officer, State, Pol/Econ
Office; REASON: 1.4(B), (D)

1. (C) SUMMARY. Major General (MG) Kenneth Dowd, CENTCOM's Director of Logistics, had productive meetings on transit and local sourcing opportunities during his recent visit to Uzbekistan from June 22 through 26. In meetings at the Ministry of Defense and the Ministry of Foreign Economic Relations, Investment, and Trade (MFERIT), MG Dowd and his delegation pressed the GOU to meet the 30-day deadline for approval of train shipments under the Northern Distribution Network (NDN) agreement. MOD Berdyev blamed delays at MFA for occasional lapses in meeting that deadline and said he would try to help fix this. MG Dowd broached air transit into Afghanistan, but MFERIT Minister Ganiev reiterated GOU's opposition. On local procurement, Dowd visited a paint plant, a steel mill, the largest cement factory in the former Soviet Union, the Navoi Airport multi-modal transit hub, and the Navoi Free Industrial Economic Zone. MFERIT went out of its way to impress upon MG Dowd the capabilities of Uzbek industry and its readiness to play an active role in providing all possible non-military supplies for ISAF forces in Afghanistan. MG Dowd consistently highlighted the expanded NDN business opportunities that are dependent on the GOU meeting the 30-day train shipment approvals and the ability to fly commodities to/from Afghanistan using Uzbekistan as a logistics throughput location. END SUMMARY

MFERIT: AT YOUR SERVICE

2. (C) MG Dowd began his official travel to Uzbekistan by meeting with First Deputy Minister Najimov at MFERIT. MG Dowd asked MFERIT to do all it can for Uzbekistan to meet and then improve the 30-day deadline for the diplomatic clearance of train shipments under the NDN agreement, expressed his strong interest in Uzbekistan's proposal to extend the Afghanistan rail line from Hayraton to Mazar-i-Sharif, and said he would like to expand local procurement beyond foodstuffs to include construction materials. He asked for Najimov's thoughts on allowing fruits and vegetables to be flown into Afghanistan and said he would like to try one shipment by this method to demonstrate proof of principle.

3. (C) Najimov replied that problems processing NDN trains into Afghanistan have more to do with outdated facilities in Hayraton than they do with diplomatic clearances. It is the unloading/loading problem in Hayraton that must be solved, and he asked the U.S. to support and speed up implementation of Uzbekistan's proposal to extend rail service in Afghanistan from Hayraton to Mazar-i-Sharif. MG Dowd stated that he had teams visit Hayraton and that even though the facilities there are old, we had determined that they could easily handle the extra NDN train traffic that would only be 2-3 trains a week. Additionally, MG

Dowd highlighted that only a couple of NDN trains have even reached Hayraton and that those trains that finally reached Haryraton were cross loaded to trucks in minimal time. Thus, MG Dowd re-emphasized that there is not a Hayraton bottleneck and reiterated that the diplomatic clearance process is the delay. Highlighting one instance of delay, DAT Jeff Hartman said five trains are still stuck in Latvia despite diplomatic notes sent to the GOU in May. Najimov promised this will be looked into.

TASHKENT: PAINTING THE TOWN

14. (SBU) From MFERIT, MG Dowd launched directly into his tour of Uzbek factories engaged in the production of construction-related supplies. He began at the Tashkent Paint Factory just a short distance from the center of Tashkent. Founded in 1945 but since upgraded many times, the paint factory is now a joint Uzbek-Chinese venture employing 800 people and producing 69,000 tons of paint, lacquer, and related products per year. Chairman of the Board Viktor Rulevskiy told MG Dowd that the plant meets ISO 9000 standards and would be willing to accommodate any separate U.S. standards that may be required. According to Rulevkiy, the plant produces oil and water-based paints in 30 colors and is currently running at only 30 percent capacity. The factory makes its own paint cans using East German equipment capable of turning out 25,000 cans per shift. (COMMENT: The factory showroom has a variety of paint products on display, all attractively labeled and presented in a manner that would not be out of place in a Washington area Home Depot.)

BEKOBAD: STEEL TOWN UZB

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15. (SBU) From the paint factory MG Dowd and his delegation traveled two hours by van to Bekabad, home of Uzmetkombinat, Uzbekistan's only steel mill. Founded in 1947, the Bekabad mill produces various types of metal products. According to Uzmetkombinat Director Alik Nurutdinov, these include steel for construction, nuts and bolts, and metal wire of various types and thicknesses. Although producing primarily for the domestic market, Uzmetkombinat exports regionally to Tajikistan, Kyrgyzstan, and Kazakhstan as well as to Afghanistan, Iran, and Iraq. At present the main steel product exported to Afghanistan is steel bars ranging in thickness from 10 to 32 mm. Nurutdinov said the price of steel rebar produced in Bekabad is currently \$450/ton and can be transported to the Afghan border at a cost of \$25/ton.

16. (SBU) The delegation toured several production lines, during the course of which engineers said the mill can produce 100 tons of rebar in eight hours. At present the mill has 30 percent reserve capacity. Barbed wire produced at the mill sells for \$1200/ton. (NOTE: Given that a roll of barbed wire is 400 meters in length and weighs 45kg, this translates into approximately \$135/km, which a delegation member said compares favorably with the price of U.S.-produced concertina wire.) In addition to steel, there are production lines for copper and brass.

NAVOI: A COMPANY TOWN

17. (SBU) On June 24 MG Dowd's delegation flew to Navoi, a post-World War II city that was closed to foreigners until after the fall of the Soviet Union. Uranium, gold, chemicals, and cement were the engines that made Navoi one of the richest cities in Uzbekistan, and to this day the city is strikingly clean with streets and buildings in good repair. It is a company town on the Soviet model, with the Navoi Metallurgical Kombinat providing the lion's share of uranium and gold profits that keep the city's coffers full. More recently, Korean Airlines (KAL) has made the Navoi Airport its new hub for cargo transit from Asia to Europe, and just last year President Karimov designated Navoi as the site of a new Free Industrial Economic Zone (FIEZ). The city still has a large ethnic Russian population, and we understand that full flights between Navoi and Moscow are the rule.

¶8. (SBU) After landing at Navoi Airport, MG Dowd was briefed by KAL Managing Vice President David Choung, Erkin Ubaidullaev of Uzbekistan Airways, and David Bryce of the Hanjin Group. Choung described how KAL's interest in Navoi began with a feasibility study in 2007 that led to the first KAL cargo planes landing in Navoi in August 2008. KAL assumed overall control of Navoi Airport in January 2009. According to Choung, Navoi Airport has many advantages in that it is a multi-modal hub with links to rail and truck, is only 300 miles from the Afghan border, and can accommodate any type of aircraft. After improvements are completed this fall, up to five Boeing 747 freighters will be able to park simultaneously on Navoi's apron, and it will be possible to process up to 300 tons per day through the new cargo terminal. KAL currently flies twelve cargo flights per week into and out of Navoi bound to or from Brussels and Inchon.

¶9. (SBU) David Bryce told MG Dowd that Hanjin Group is investing to upgrade facilities on the Afghan side of the border in Hayraton, terminus of the rail line from Navoi into Afghanistan. Bryce said aging freight terminal equipment in Hayraton can limit the speed with which cargo can be off-loaded from rail to truck and he suggested that shipping from Navoi by truck only could be a better option, with shipping from Navoi to Bagram or Kabul taking three days and Navoi-Kandahar taking six. Erkin Ubaidullaev interjected that Uzbekistan Airways very much wants to ship ISAF supplies by air from Navoi but is prevented from doing so by GOU policy. He asked for any and all assistance that can be brought to bear to change GOU policy on this score.

¶10. (SBU) MG Dowd highlighted that the Navoi intermodal (air to surface) solution is an option and that USTRANSCOM concurs with his desire to utilize this transportation hub with at least two flights of cargo per month to then be forward moved to Afghanistan via

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surface trucking. He continued, however, that higher priority cargo that requires air transport should not then be downloaded for a long surface movement and instead should be flown as close as possible to its final destination. MG Dowd reminded all present that three flights containing a cargo of bunk beds were scheduled to arrive in Navoi the next day with surface trucking onward movement to Afghanistan.

¶11. (SBU) From the airport MG Dowd traveled next to the FIEZ, just a kilometer or two away on the other side of the main Bukhara-Samarkand highway. Construction manager Arzamat Avezov described how six months ago there had been nothing but open space where the FIEZ is now rising from the desert in response to President Karimov's December 2008 decree. Covering an area of 564 hectares, the FIEZ will provide water, electricity, and all other infrastructure necessary for foreign investors to set up manufacturing on lots rented at a low \$1000 USD per year per hectare. The FIEZ was created for 30 years with possible further extensions. A special customs, foreign currency, and tax regime will be in force within the FIEZ, and those businesses setting up operations with the FIEZ will be released from taxes and other payments for different periods up to thirty years depending on the size of the direct investment. According to Avezov, at present 180 firms have expressed interest in locating within the FIEZ, and of these a number have already paid the symbolic 1200 Euro registration fee and are beginning construction. Avezov pointed to a map highlighting those businesses that have already committed to the FIEZ. These included businesses ranging from textiles to auto parts to semiconductors, LCD monitors, and fiber optics. A number of these appear to be Korean or Uzbek-Korean joint ventures, and Avezov said both an Uzbek and a Korean bank would operate within the FIEZ. Avezov added that plans call for the FIEZ to be complete and fully occupied by 2012, after which work will begin on the infrastructure for a second FIEZ zone on adjacent territory.

¶12. (SBU) The next and final stop in Navoi for MG Dowd was the Navoi Cement Factory. In operation since 1977, the cement plant is the largest in the former Soviet Union and is the only one to use

the dry cement method. Plant directors told the delegation that production was 3 million tons last year, of which 2.6 million went to the internal market. Export markets have at various times and degrees included Russia, Kazakhstan, Kyrgyzstan, Moldova, Turkmenistan, Afghanistan, and Tajikistan. Last year approximately 26,000 tons went to Afghanistan, mainly for construction at Kabul International Airport. MG Dowd asked whether the plant would have any problem fulfilling an ISAF order for up to a million tons per year, to which the response was, "No problem!"

MOD: BEWARE RUSSIAN INFLUENCE

¶13. (C) Upon returning to Tashkent, MG Dowd sat down with Minister of Defense Berdyev, who welcomed the general, saying that his was a "noble mission" and that the MOD would work to solve any problems with the transit of goods to Afghanistan. MG Dowd described his factory visits, his hopes for increased local procurement, and his appreciation for MOD's support on NDN. He then reiterated the points he had made earlier at MFERIT, in particular concerning the need to speed up the diplomatic clearance process. He asked that air shipments be permitted in addition to truck and rail.

¶14. (C) Berdyev replied that air transit is not in MOD's competence, but he said the GOU is doing its best to comply with the 30-day diplomatic clearance guideline. Saying that "ours is a bureaucratic system," he said the MOD is not responsible for any delays and suggested that any problems may be in the MFA. He said, however, that he would do all he can to facilitate the process.

¶15. (C) Ambassador Norland asked about the regional security picture, to which Berdyev responded that Coalition pressure in the Afghanistan / Pakistan region was spurring terrorist activity in Central Asia, but he added that the GOU had things under control. He accused the Russians of fomenting instability in order to keep the Central Asians dependent on Russia. He went so far as to urge the U.S. and Europe to open their own TV channels to counter Russian dominance of the airwaves.

MFERIT: COME AGAIN!

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¶16. (SBU) MG Dowd concluded his visit to Uzbekistan by returning to MFERIT for a meeting with Minister Elyor Ganiev, who opened by saying the GOU is ready to do anything it can to create favorable conditions for U.S. companies to start production in Afghanistan. He continued that some U.S. companies have expressed interest in the Navoi FIEZ and added that production in Uzbekistan could help U.S. companies weather the world financial crisis. On NDN, Ganiev repeated that the bottleneck is Hayraton and that the rail extension to Mazar-i-Sharif is a necessity.

¶17. (C) MG Dowd expressed his satisfaction with his visit and his appreciation for MFERIT's support on NDN. MG Dowd reiterated the points he had made earlier concerning the need to speed up the diplomatic clearance process and the need for air transit. MG Dowd again highlighted that if needed he would send a team to Hayraton to relook at capacity throughput concerns but to date he was not aware of any delays. Rather, all delays were internal to Uzbekistan. Ganiev replied that fresh fruits and vegetables grow mainly in Uzbekistan's southern provinces -- not in the nearly desert plains of Navoi -- and are therefore best shipped to Afghanistan by truck, not air. Moreover, Ganiev added that air transit is ten times more expensive than truck. MG Dowd asked Ganiev to consider the commercial potential for shipping fruits and vegetables to Afghanistan by all modes -- especially air -- due to spoilage concerns, but Ganiev closed the conversation by saying "you understand our position" on air transit. MG Dowd stated that we would be an advocate for the Hayraton to Mazar-i-Sharif rail extension project.

COMMENT

¶18. (SBU) MG Dowd had a very productive set of meetings on local transit, and he has set the stage for possible expansion of local procurement from foodstuffs to construction materials. As during previous visits by Generals Petraeus and McNabb and by representatives of the Defense Logistics Agency, MFERIT and MOD went out of their way to highlight the capabilities of Uzbek industry. The GOU still worries about the outcome in Afghanistan -- a fact made clear by its refusal to allow air transit -- but it also wants NATO forces to succeed in making Afghanistan a stable neighbor on its southern border. And if Uzbekistan can profit economically from this enterprise, it will be all that much more an active partner in making that success possible.

¶19. (C) On note, since MG Dowd's departure the GOU ability to meet the 30-day deadline for approval of train shipments under the NDN agreements is getting worse. There are six trains that have exceeded the 30-day approval process. They range from 3 to 17 days overdue.

¶20. (SBU) USCENTCOM has cleared on this cable.
BUTCHER